

Idaho Economic Forecast

C.L. "Butch" Otter, Governor

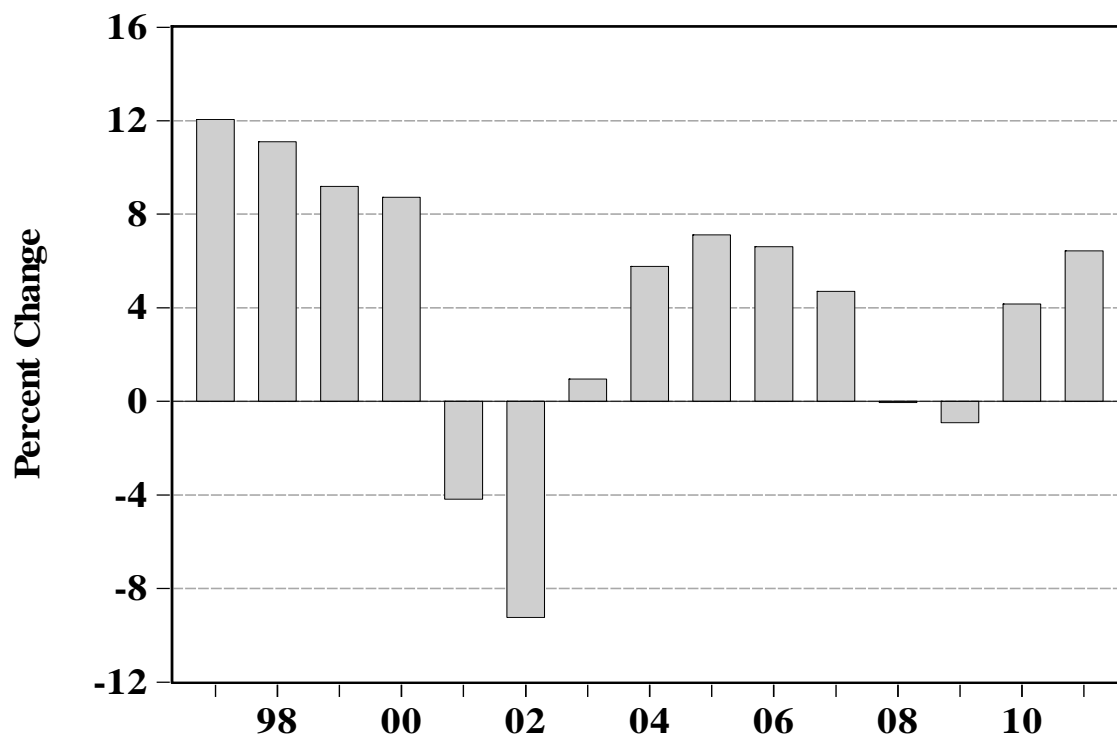
Division of Financial Management

Vol. XXX, No. 2
April 2008

ISSN 8756-1840

- Forecast 2008-2011
- Idaho General Fund Revenue Forecasting: A New Approach
- Alternative Forecasts

Real Business Investment



Source: Global Insight

**IDAHO
ECONOMIC
FORECAST
2008 - 2011**

State of Idaho
C.L. “BUTCH” OTTER
Governor

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04-08/385/010200-180-4001

PREFACE

Idaho's economy continues to grow and evolve as it enters the 21st Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded every year and has consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit card companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. The continuing dependence on natural resources will bring a host of challenges to Idaho.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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INTRODUCTION

The national forecast presented in this publication is the April 2008 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the December 2007 Global Insight baseline national forecast. In addition, an interim forecast was prepared in February 2008 in response to fast-changing national economic conditions that had significant impacts on the state's revenues. The summary tables for the interim economic forecast and the revised Idaho General Fund revenue projections are available at Idaho Division of Financial Management's (DFM) website.

The cover graph shows the national economy will receive little support from real business investment over the next few years. In fact, investment is expected to contract over the next two years and, thus, it will actually be a drag on the economy. The last time business investment dropped in two consecutive years was when high-tech stocks imploded earlier this decade. The projected declines will be significantly milder. After these setbacks, real business investment rallies in 2010 and 2011.

FEATURE

In this issue's feature article Idaho Chief Economist, Michael H. Ferguson, presents DFM's new approach to producing its General Fund revenue forecasts. Previously, forecasts of the state's revenue collections were presented as the most likely amount of revenue the state would receive in a given fiscal year. Starting in January 2007 the Executive Revenue Forecast introduced the concept of dividing the basic revenue forecast itself into one-time and ongoing components. A major reason for this change is the significantly increased volatility in the revenue stream over the past decade.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1994 to 2011 and for every quarter from 2005 through 2010. The solution of the Idaho Economic Model (IEM) for this forecast begins with the first quarter of 2008.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

CHANGES

The Idaho Department of Labor provides monthly historical employment data that are seasonally adjusted and converted to quarterly frequencies by the Idaho Division of Financial Management (DFM). These adjusted data include final employment numbers through the third quarter of 2007 and estimates for the fourth quarter. These data show Idaho total nonfarm employment was 2,516 jobs lower in the third quarter of 2007 than had been reported in the January 2008 *Idaho Economic Forecast* and there were 3,158 fewer jobs in the fourth quarter than had been predicted.

The tables in this forecast include the U.S. Bureau of Economic Analysis' (BEA) March 26, 2008 estimates of Idaho quarterly personal income through the last quarter of 2007. The quarterly estimates were revised back through the first quarter of 2004. The next round of Idaho quarterly personal income estimates is scheduled to be published on June 19, 2008 and will run through the first quarter of 2008. These estimates will be incorporated into the July 2008 *Idaho Economic Forecast*.

Please note this is the last time printed copies of the *Idaho Economic Forecast* will be available. However, the *Idaho Economic Forecast* will continue to be available electronically at http://dfm.idaho.gov/Publications/Econ_Publications.html. If you would like to be contacted by email when each new forecast is posted to DFM's website, please send your name and email address with *Idaho Economic Forecast* in the subject line to info@dfm.idaho.gov.

Readers with any questions should contact Derek Santos at (208) 854-3070 or at dsantos@dfm.idaho.gov.

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